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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 003151

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SUBJECT: ROYG MAKING TENTATIVE STEPS TO STEM CORRUPTION AND PROMOTE ECONOMIC REFORM

REF: SANAA 2521

Classified By: Ambassador Thomas C. Krajewski for reasons 1.4 (b. and d.)

1. (C) A recent series of local press articles may signal that the ROYG is finally taking initial steps to address corruption, particularly in the area of diesel smuggling, one of the main reasons Parliament was able to successfully stall implementation of an economic reform package. In a meeting to determine Yemen's MCA threshold proposal, Anti-Corruption Committee point man Ali al-Anisi affirmed that fighting corruption is a top priority for the ROYG. In September, (reftel) Parliament (with the blessing of the President) voted down a series of cost cutting and revenue enhancing measures, saying that until the executive did more to address administrative abuses and corruption, the reforms would not pass. Parliament is now debating the 2005 budget, which has attached to it the pending economic reforms. The reform package includes reducing diesel subsidies, and instituting a general sales tax and civil service reform.

Saleh Forms New Anti-Corruption Committees

2. (SBU) Press reports have focused on a move by President Saleh to form two investigative committees to look at the issues of oil smuggling and over-staffing at the Ministry of Education. The committee investigating the oil subsidies will be composed of members from Parliament's Oil Committee (responsible for this past year's corruption investigation on block 53) and members of the Central Organization for Control and Audit. An article in the government daily "al-Thawra" specified companies to be investigated. Deputy Foreign Minister Noman told Pol/Econ Chief that all contracts with the companies in question have been canceled until the investigation is completed. (Background: One of the arguments in favor of reducing the subsidy is that diesel fuel is smuggled to neighboring countries and sold for profit. Most of smugglers are affiliated with the military and benefit from the subsidies.)

3. (SBU) The second committee will address a controversial and public problem, over staffing at Ministry of Education. It is rumored that as many as 50 percent of people who collect salaries from the Ministry of Education do not actually report to work.

Press Supports Reform

4. (SBU) On December 12 "al-Thawra" ran a front-page commentary noting that diesel subsidies cost the ROYG 670 million USD a year. "Those who were against the reforms are corrupt and benefit from the low diesel prices," the article criticized, accusing politicians who oppose reducing oil subsidies for "not assuming and responsibility for the national interest." (Note: The 2005 ROYG Budget is about 4.5 billion USD, the amount in diesel subsidies is in excess of what the government spends on healthcare and education combined. End Note).

5. (SBU) Deputy Minister of Planning Mohammed al-Sabry told Pol/Econ Deputy he was pleased at the "strong words" of this article and believed it indicated increased attention to promoting reforms. Sabry himself penned an article that appeared in the paper "Jaridat al-Nas," affiliated with the opposition party Islah, saying that the "doses", as the economic reforms are commonly referred to, will not affect the people. Sabry analyzed the effect on the poor, and concluded that while inflation will grow, more money will be used for development. Sabry said that his article was the first in a series that will directly address the concerns of the average citizen over the effects of the economic reform package.

Anisi Says Saleh Personally Involved With Issue

6. (C) To demonstrate the ROYG's commitment to anti-corruption measures, Deputy Prime Minister Sofan arranged for Ambassador and visiting MCA Threshold Program

representative to meet with Director of the Presidential Office and Deputy Director of the Supreme Committee for Combating Corruption Anisi 12/20. Prime Minister Ba Jammal heads the Supreme Committee. Anisi affirmed Yemen's commitment to fighting corruption and produced a German financed study outlining measures the ROYG has to enforce its existing anti-corruption laws. Anisi said President Saleh is personally involved with anti-corruption measures and that the government understands the issue. To close, Anisi claimed that Yemen wants to take a leadership role in fighting terrorism, promoting democratic reform and fighting corruption. (Note: Anisi's committee is openly derided among most Yemenis as worthless, and he is known to be one of the more corrupt members of Saleh's inner circle. End note.)

17. (C) Comment: Embassy contacts are pointing to these initial steps with pleasure, but note healthy skepticism at what might be achieved. Anisi's committee has done nothing in the past two years to actually stem the rising tide of corruption. It is significant to note that for the first time a Deputy Minister is appearing on the front lines advocating for economic reform. Until a Minister or the President directly appeals for these changes, however, we too remain skeptical about how much impact this new public campaign will have on reforms. Nevertheless, high level bureaucrats have taken up the call to promote reforms, and the President's establishment of two committees to investigate corruption are both important steps. Post will continue to encourage follow-through on these initiatives and push for additional concrete steps to address corruption, which is crucial as Yemen aims for MCC status in 2006. End Comment.
KRAJESKI